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Comparative statements

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the price at which the consumer is willing to buy his product. He is burdened with the goods and must take what he can get, hoping to replace his stock with lower priced material, labor, and overhead which he may sell later at a profit.

The purveyors of the materials and labor, and the articles and services which comprise the overhead cost must in turn accept lower prices in order that commodities may be produced on a profitable basis. The laboring man like everyone else must bear his share.

Transition to a lower price level cannot be accomplished until every individual sees the light and is willing to accept his share in the inevitable loss which must result from such change.

Comparative Statements

By J. M. PALEN, of the New York Office

A COMPARATIVE statement is one which shows the figures at one date or for one period and the increases and decreases therein as compared with the figures at another date or for another period, which may or may not themselves be shown.

Undoubtedly, many opportunities for valuable service to our clients have been lost through failure to show such comparisons in our reports. In our concern over the verification of figures we sometimes forget that the most important function of all statements is to serve as a guide in the administration of business.

To an executive the comparative balance sheet is invaluable. From it he may read not only the present financial condition, but the general trend of his business. Among other things, it draws attention to (1) relative efficiency of the financial management, as evidenced by changes in current assets as compared with current liabilities; (2) an unwarranted increase in the amount of accounts receivable, which may be due to careless granting of credits, poor collection methods, or to a general credit stringency, the latter being warning to the client to provide against the day when his own liabilities mature; (3) increases or decreases in the amount of merchandise stock on hand, which may indicate whether stock is moving less rapidly or more rapidly than in prior periods.

Equally valuable for administrative purposes, if not more so, is the comparative statement of income and profit and loss. The client is of course interested in changes in his financial condition, but he is even more interested in knowing how those changes came about. If he has increased his profits he wants to know whether he did so by reducing costs, or selling expenses, or administrative expenses, or by an increase in the volume of business done. If he has met with a loss he is even more interested in knowing the reasons therefor. A comment to the effect that the ratio of selling expenses to net sales has increased 10.64 per cent. is not only more interesting but vastly more valuable to him than the knowledge that the aggregate of the balances of the accounts receivable is $4.72 less than the controlling account in the general ledger.

In statements to be used for financial purposes comparisons are even more important, for frequently the banker has no other means of knowing whether the client's position is improving or the reverse.

Two advantages in the use of comparisons accrue directly to the accountant. First, they draw attention to matters which should be investigated. Unusual increases or decreases in specific items will stand out sharply, and may, upon investigation, prove to be the result of inaccurate recording or classification or of actual dishonesty. Second, they furnish the accountant with talking points for his report. They not only bring out in bold relief the changes which have taken place, but furnish in most cases the explanation of those changes.

Where comparative statements have not been rendered in previous reports and no mention is made of the matter in the engagement blank, it is advisable that the accountant should ascertain, if possible, why such statements were not rendered; or, if only the balance sheet has been made comparative in the past, he should ascertain why a comparative statement of income and profit and loss was not rendered. However, due regard should be given the fact that there are cases where comparisons are of little value. There is no occasion for their use, for instance, in the case of a bank or brokerage house, where an audit is usually conducted for purposes of verification only. Also, in rare instances, the client does not care for comparative statements because he has elaborate statistical data prepared in his own office which include all the information our comparisons might give. However, in the case of most manufacturing, mercantile, and mining concerns their use will be found to be highly acceptable.

Very frequently the client will appreciate comparisons even though it might be necessary to qualify the statement with regard to the figures for the prior period by reason of our not having audited the accounts for that period, or as of the end of that period.

A comparative balance sheet may show the figures for both dates and the comparisons, in which case the title would be "General Balance Sheet, December 31, 1920 and 1919, and Comparison." If the figures for the prior date are omitted and only increases and decreases shown, the title would be "General Balance Sheet, December 31, 1920, and Comparison with December 31, 1919." Similarly, statements of income and profit and loss would be entitled "Statement of Income and Profit and Loss for the Years Ended December 31, 1920 and 1919, and Comparison"; or "Statement of Income and Profit and Loss for the Year Ended December 31, 1920, and Comparison with the Preceding Year"; or "Statement of Income and Profit and Loss for the Eight Months Ended December 31, 1920, and Comparison with the Corresponding Period in the Preceding Year."

Clients generally like to see the figures for both dates. Increases may be shown in one column and decreases in another, but preferably one column is used, increases being shown in black and decreases in red.

In statements covering two or more dates or periods, if, as is usually the case, the primary interest is in the latest, that date or period should be shown at the left and the most remote at the right. When the periods appear to be equally important, the reverse order seems to be logical.

Also, when primary interest is in the latest date or period, effect should be given to any changes in the classification of accounts by adjusting the figures for the prior date or period in accordance therewith, so as to present a true comparison. In regular periodical audit reports this adjustment of prior figures should not extend to changing the surplus at the end of the prior period, but in special statements it is often desirable to do so for the purpose of applying surplus adjustments of one period to the proper accounts of the periods actually affected.

Occasionally it is desired to show the percentages as well as the amounts of increase or decrease. The column headings in such a case are usually as follows:

Year ended Dec. 31,		Increase or *Decrease	
1920	1919	Amount	Per cent.

*Typed in red.

In the comparatively rare cases where it is desired to present on one sheet the balance sheets for more than two dates no comparison is usually desired. An appropriate title for such a balance sheet would be "General Balance Sheet, December 31, 1920, 1919 and 1918." A statement of income and profit and loss prepared upon a similar basis would be entitled "Statement of Income and Profit and Loss for the Years Ended December 31, 1920, 1919 and 1918," or, "Statement of Income and Profit and Loss, by Years, for the Three Years Ended December 31, 1920." If an examination had been made for the entire three years and it were desired to show amounts in total as well as for each of the three years the statement would be called "Statement of Income and Profit and Loss for the Three Years Ended December 31, 1920." A statement covering the period from September 1, 1918, to December 31, 1920, and showing also the average per annum would be entitled "Statement of Income and Profit and Loss, by Periods, from September 1, 1918, to December 31, 1920, and Average Per Annum."

Gleams of Recognition

THOSE who have the interests of the accountancy profession at heart should experience a sense of gratification at references which are now frequently made to the useful and important place occupied by public accountants in business affairs of the day.

Mr. Julien H. Hill, in a paper entitled "Information Desired by the Banker," read before the Virginia Society of Public Accountants, September 4, 1920, and reproduced in the November, 1920, number of *The Journal of Accountancy*, pays compliment to the profession as follows:

> The banks of this country are becoming more and more dependent every day on your profession and we often wonder how our business was conducted without you. . . . The audited statement is daily growing in importance in determining the extension of credits, but there are thousands of concerns which have yet to appreciate the advantages accruing to themselves as well as to their banks, and I do not hesitate to tell you that we are daily advocating the value of periodical audits by certified accountants, and I rejoice to see that even among the smaller banks the audited statement is now recognized as of first importance. . . . And a closer relationship between the men of your profession and of ours cannot but tend to safer and saner business methods and constructive work along many lines.

The *Wall Street Journal*, exercising its editorial prerogative of criticizing public affairs, said on November 20, 1920, regarding Admiral Benson, who assumed the chairmanship of the United States Shipping Board:

> Admiral Benson was not responsible for the mistakes, and worse, which characterized that Board's inception and operation during the war and after the armistice. But he should have known what sort of task he was undertaking when he took up the chairmanship of the Board. . . . An officer appointed to the presidency of a large corporation which had drifted into such condition as the Shipping Board was in when Admiral Benson accepted its direction, would, with the backing and approval of the stockholders, have had an accountant's examination of the whole concern. This would be his manifest duty, not merely to the stockholders of the company and its creditors but to himself, as an act of the commonest self-protection.

From the point of view of accountancy, perhaps the most significant fact is that the suggestion comes from a newspaper with the standing of the *Wall Street Journal*.